



Dulwich College Shanghai

IB ECONOMICS

INTERNAL ASSESSMENT

COMMENTARY DOCUMENTATION

Commentary No: 1

Extract Title:

Minimum price plan to end cheap alcohol sales

Extract Source:

British Broadcasting Corporation

Date extract was written: November 28th 2012

Word Count: 750

Date commentary was written: January 24th 2013

Section of syllabus that the commentary relates to: Microeconomics

Commentary 1	Criterion A: Diagrams	Criterion B: Terminology	Criterion C: Application	Criterion D: Analysis	Criterion E: Evaluation	Total marks	Nature of the article
Marks awarded for each criterion available	2 / 3	2 / 2	2 / 2	3 / 3	3 / 4	12 / 14	OK.
Comments	Allocative efficiency in 2 nd diagram positioned incorrectly but other diagrams are well applied + explained.	Good.	Relevant theory is well applied + analysed with supporting text used throughout.	Good stakeholder evaluation. A bit more depth required.	Overall comments A good first commentary.		



HEALTH

28 November 2012 Last updated at 10:34 GMT

Minimum price plan to end cheap alcohol sales

By Nick Triggle
Health correspondent, BBC News

Ministers are proposing a minimum price of 45p a unit for the sale of alcohol in England and Wales as part of a drive to tackle problem drinking.

The Home Office has launched a 10-week consultation on the plan, arguing it will help reduce the levels of ill-health and crime related to alcohol.

It is also considering banning multi-buy promotions, such as two-for-the-price-of-one.

The 45p proposal is 5p higher than the figure suggested by ministers in March.

It comes after pressure has been mounting on the government to follow Scotland's lead, where 50p has been proposed.

The aim of a minimum price would be to alter the cost of heavily-discounted drinks sold in shops and supermarkets. It is not expected to affect the price of drinks in many pubs.

The Home Office said the consultation was targeted at "harmful drinkers and irresponsible shops".

A spokesman added: "Those who enjoy a quiet drink or two have nothing to fear from our proposals."

The 45p minimum would mean a can of strong lager could not be sold for less than £1.56 and a bottle of wine below £4.22.

Research carried out by Sheffield University for the government shows a 45p minimum would reduce the consumption of alcohol by 4.3%, leading to 2,000 fewer deaths and 66,000 hospital admissions after 10 years.

The number of crimes would drop by 24,000 a year as well, researchers suggested.

There has been evidence of some outlets selling alcohol at a loss to encourage customers through the doors, with cans of lager going for 20p and two-litre bottles of cider available for under £2.

'Pre-loading'

Ministers have been particularly critical of such practices, blaming them for what has been dubbed "pre-loading", where people binge-drink before going out.

They have linked this phenomenon to the rising levels of alcohol-related violence and hospital admissions, of which there are more than a million a year.

But the idea of introducing a minimum price - first proposed at 40p in the government's alcohol strategy published in March - has

been met with opposition by the industry.

The Scottish government plan, which is not due to start until April 2013, was challenged on legal grounds by the Scotch Whisky Association and the European Spirits Organisation.

They claimed it was up to Westminster, rather than Holyrood, to decide such an issue and they said it was also incompatible with the EU's "general principles of free trade and undistorted competition".

The legal challenges were heard in the Court of Session in Edinburgh last month and a judgement is expected before the end of the year.

Separately the European Commission is looking into the legality of the Scottish government's actions.

In Northern Ireland, consideration is also being given to minimum pricing, although no final decision has been taken yet.

Andrew Opie, of the British Retail Consortium, said: "Most major retailers believe minimum pricing and controls on promotions are unfair to most customers. They simply penalise the vast majority, who are perfectly responsible drinkers, while doing nothing to reduce irresponsible drinking.

"The government should recognise the role of personal responsibility. It should not allow interfering in the market to regulate prices and promotions to become the default approach for public health policy."

Miles Beale, chief executive of the Wine and Spirit Trade Association, agreed, saying there was "no evidence" minimum alcohol pricing would be effective in tackling alcohol misuse.

But health campaigners believe a minimum price is an important step in tackling problem drinking.

Dr Vivienne Nathanson, from the British Medical Association, said the changes in pricing could help to stop young people binge drinking.

She told the BBC: "Alcohol is a dose-related poison, in other words the more you drink the more harm it causes, so by reducing the amount they are drinking over the safe limit you are helping to save them.

"It isn't a small minority of the population who are drinking excessively, it's nearly a quarter. That's a huge number of people who are drinking at levels that are hazardous to their health and we really have to throw everything we can (at it) to save lives."

Eric Appleby, chief executive of Alcohol Concern, said: "We're paying a heavy price for alcohol misuse and setting a minimum unit price will help us on the road to changing this.

"But we cannot cut the misery caused by excessive drinking, whether it's crime or hospitalisation, through price alone.

"We need tighter controls around licensing, giving local authorities and police forces all the tools they need to get a firm grip on the way alcohol is being sold in their area. We have an opportunity to make an enormous difference to the lives of thousands of people - we must seize it."

Comments

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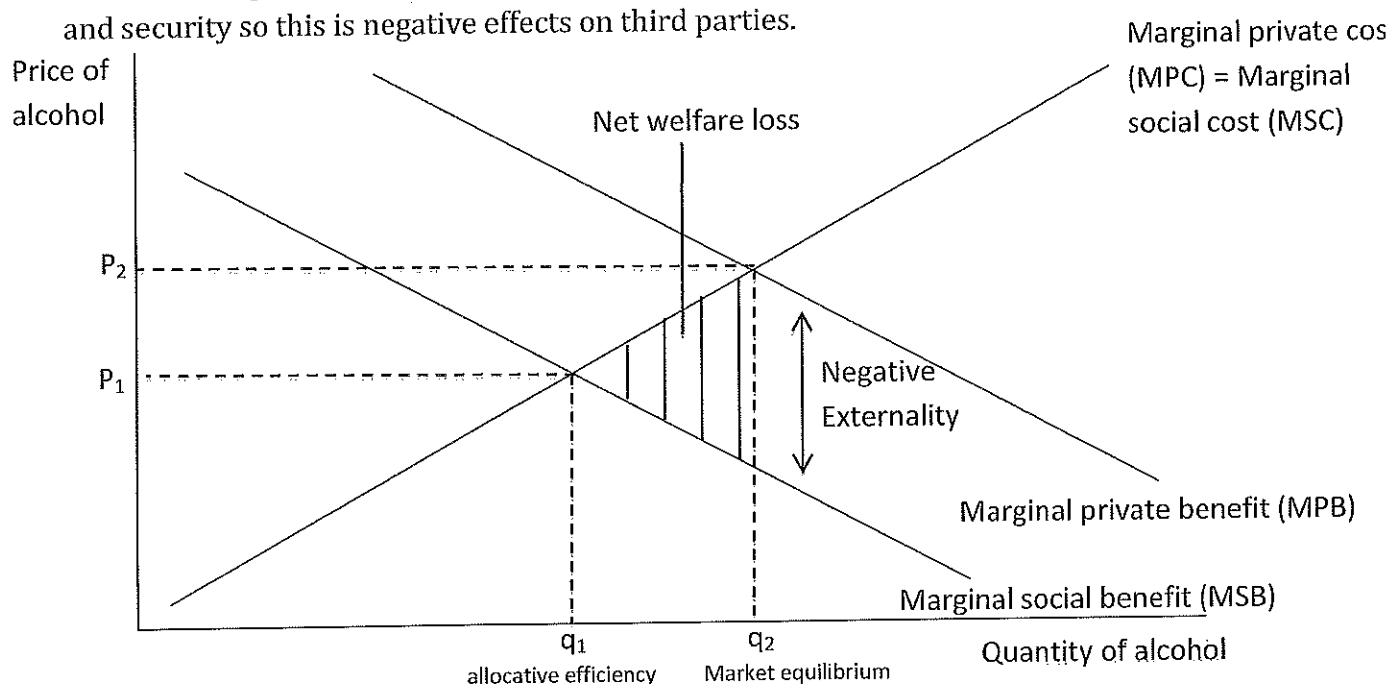
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28TH NOVEMBER 2012 - 13:54

Anyone else getting fed up with being told what to do via massive price increases? I don't drink that much, but on the odd occasion I get drunk, the worst I inflict on people is my dancing! I don't smoke anymore, but that too was a personal choice! I'm not stupid, I know what the effect of

This article demonstrates an economical problem of overconsumption of demerit goods, leading to existence of negative externalities and therefore market failure as the presence of externalities causes market failure. A negative externality is defined as the negative effects imposed on a third party due to the consumption and/or production of a particular good or service. A demerit good is defined as goods that give negative externalities when they are consumed and/ or produced. Market failure is defined as a failure in the market to allocate resources efficiently.

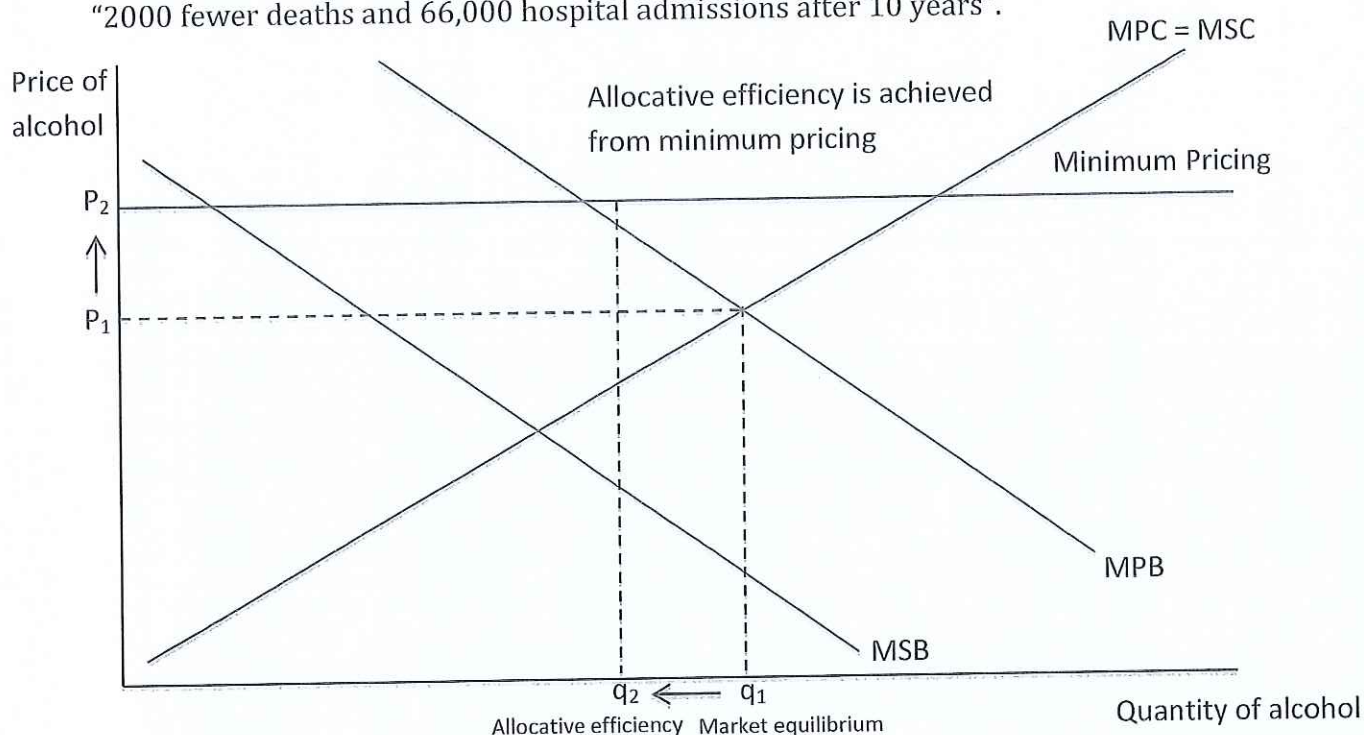
The problem of low price of 'cheap alcohol sales' in England and Wales is the negative externality of consumption of alcohol which is "levels of ill-health and crime related to alcohol" that arises from overdrinking alcohol because market equilibrium exceeds the quantity of allocative efficiency, causing a net welfare loss and market failure. A net welfare loss is defined as economic welfare that is lost due to too much or too little production and/or consumption of a good or service. Allocative efficiency occurs when there are no externalities therefore social cost would equal social benefits. This becomes a negative externality because more money is needed to be spent on hospitals and security so this is negative effects on third parties.



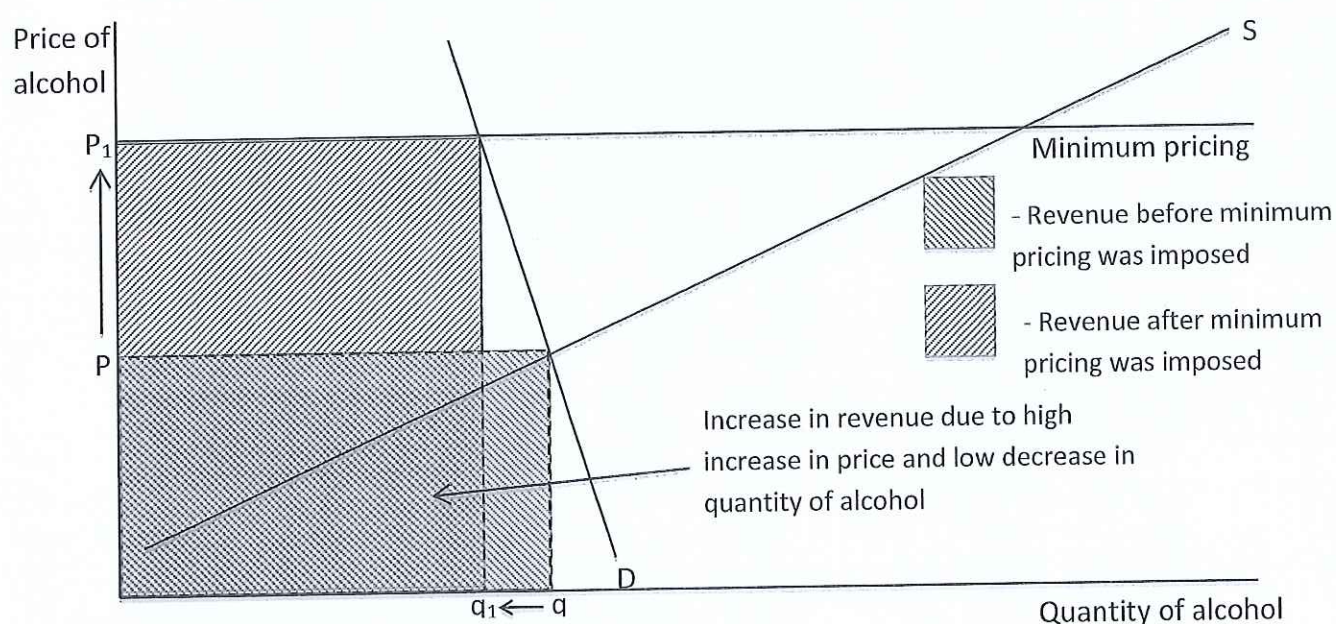
The private marginal benefit is greater than social marginal benefit because utility is gained from consuming alcohol but this affects society negatively due to illness and crime so there is a negative externality of consumption, which causes social marginal benefit to be less than private marginal benefit.

The government uses minimum pricing (price flooring) as an intervention to solve market failure and remove the negative externality of consumption as it reduces consumption of alcohol and preventing overconsumption of alcohol by causing price of alcohol to increase by "5p higher than the figure suggested by ministers in March." Banning "multi-buy promotions" can further reduce consumption of alcohol and reduce problem of overdrinking leading to negative externality.

This ultimately reduces Market failure because it decreases the amount of net welfare loss and reduces negative externality so it is achieving allocative efficiency, as it is suggested in the article that “the number of crimes would drop by 24,000 a year” and “2000 fewer deaths and 66,000 hospital admissions after 10 years”.



Since demand for alcohol is relatively price inelastic, the alcohol industry would have an increase in revenue and therefore an increase in profits, which could lead to higher standards of living as more employment could occur in the alcohol industry, and so leading to higher levels of income. Also, this shows how minimum price may have to be imposed at a very high price to decrease demand, as demand is price inelastic.



However, demand for alcohol would not have decreased as much therefore the negative externality of consumption of alcohol would still exist.

There are also many problems to imposing a minimum price to alcohol. Firstly, it is hard for the government to measure at what price they should impose a minimum pricing on alcohol to achieve efficient allocation of resources on alcohol. Another problem for imposing a minimum price on alcohol is that demand is relatively price inelastic for many customers therefore their consumption for alcohol would only decrease by a little which would still cause problems such as ill-health and crime to arise. Also, the low-income groups are affected the most, as a larger proportion of their income will be spent on alcohol.

Ultimately, the government using minimum pricing could potentially solve the market failure and remove the negative externality of consumption of ill-health and crime. However, this depends on the elasticity of alcohol and the demand for alcohol is likely to be inelastic therefore the consumption for alcohol will decrease by a tiny amount so the negative externality will still exist. Also, this is a long term solution so the consumption of alcohol would only gradually increase therefore the negative externalities continue to exist in the short term as it takes time to change consumer's consumption habits and slowly decreases in the long term. This would ultimately benefit the government and firms because the government can spend less money on security and healthcare so they can spend more on developing the country. The firms gain more revenue due to demand for alcohol being price inelastic therefore they will gain more profit. The consumers (beer drinkers), however, have to spend more money to consume alcohol, but the third parties will benefit from this, as they will be less externality due to alcohol drinking.